

Message Text

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ACTION AID-59

INFO OCT-01 AF-10 ISO-00 AGR-20 IGA-02 AEC-11 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00

PA-04 USIA-15 PRS-01 DOTE-00 NEA-10 DRC-01 /230 W

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FM AMEMBASSY ACCRA

TO SECSTATE WASHDC 2980

INFO AMEMBASSY LAGOS

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DEPARTMENT FOR T/IEP, LAGOS FOR AGATT

EO 11652 NA

TAGS/ ENRG, GH

SUB: DOMESTIC POL PRICE INCREASE

REF:A) ACCRA 0975 B) STATE 020995

SUMMARY PETROLEUM PRODUCT RETAIL INCREASES ANNOUNCED MARCH 12. TAXES ON PETROLEUM REDUCED BUT PRICE INCREASE REMAINS LARGE ONE. WITH TAX REDUCED AND SOME SUBSIDY REMAINING DEFICIT INCREASED ABOVE LEVEL PROJECTED FY 1974 BUDGET. INCREASE PRICE NOT LIKELY DO MUCH REDUCE CONSUMPTION AND THEREBY MITIGATE BALANCE PAYMENTS IMPACT WORLDWIDE ENERGY CRISIS. IMMEDIATE IMPACT HAS BEEN SHARPLY INCREASE TRANSPORT COST WHICH ULTIMATELY WILL BE REFLECTED HIGHER PRICES GOOD AND SERVICES. END SUMMARY.

1. AFTER LONG PERIOD HINTING AT INEVITABLE, GOG ANNOUNCED NEW PRICES PETROLEUM MARCH 12. PREMIUM GASOLINE NOW CEDIS 1.20 IMPERIAL GALLON (I.G.) AS OPPOSED PREVIOUS 70.5 PESEWAS
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I.G. REGULAR NOW CEDIS 1.10/I.G. AND KEROSENE 75/I.G.

2. IN EFFORT MINIMIZE PRICE INCREASE, TAX ON PETROLEUM REDUCED
(FROM 34.5/I.G. FOR PREMIUM GASOLINE TO 13.85). PREMIUM
GASOLINE PRICE SITUATION NOW AS FOLLOWS (PESEWAS PER IMPERIAL);

PRICE EX REFINERY	89.15
ALLOWANCE FOR TRANSPORT COSTS	6.00
DISTRIBUTOR'S PROFIT	3.85
COST TO RETAILER	99.00
TAX	13.85
RETAILER'S PROFIT	7.15
TOTAL COST	120.00

3. ANNOUNCEMENT NOTED INEVITABLE NATURE INCREASE AND STATED
THAT WITHOUT RETAIL PRICE INCREASE, SUBSIDY ON REFINERY PRODUCT
WOULD HAVE COST NEARLY CEDIS 200 MILLION. EVEN WITH PRICE IN-
CREASES ANNUAL SUBSIDY COST ESTIMATED AT CEDIS 25 MILLION OF
WHICH MAJOR PART DUE QUOTE SUBSTANTIAL UNQUOTE
SUBSIDY RETAINED KEROSENE IN ORDER TO REDUCE (ACCORDING
TO ANNOUNCEMENT) BURDEN ON RURAL INHABITANTS
WHO ARE MAIN USERS. ANNOUNCEMENT STRESSED PETROLEUM PRICES
STILL REMAIN BELOW THOSE PREVAILING MANY OTHER WEST AFRICAN
NATIONS.

4. NET EFFECT TAX REDUCTION AND PRICE INCREASE WILL BE
REDUCTION GOVERNMENT REVENUES. THIS ALONG WITH REMAINING
SUBSIDY WILL SERVE INCREASE OVERALL DEFICIT OVER THAT PROJECTED
FY 74 BUDGET AND THUS CONTRIBUTE INFLATIONARY PRESSURES.

5. AS NOTED REF A IMPACT OF INCREASED COSTS OF IMPORTED CRUDE
ON B/P LIKELY BE SEVERE, ABOUT \$100 MILLION IN 1974.
WHETHER THIS WILL BE REDUCED BY INCREASE DOMESTIC CEDI PRICE DE-
PENDS RESPONSE CONSUMERS IN TERMS DIRECT
IMPACT POL CONSUMPTION AND INDIRECT IMPACT VIA INCOME
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EFFECT ON CONSUMPTION OTHER IMPORTS. DO NOT EXPECT THESE FACTORS
SIGNIFICANTLY MITIGATE B/P IMPACT.

6. MORE IMMEDIATE EFFECT IS VISIBLE INCREASE IN PRICE OF
TRANSPORT. GOVERNMENT-OWNED PRESS REPORTING SHARP INCREASES
TAXI AND PASSENGER TRUCK FARES. BUT NRC IS AWARE OF DOMESTIC
POLITICAL IMPLICATIONS AND IS MAKING HIGHLY PUBLICIZED EFFORTS
COERCE AND JAWBONE DRIVERS TO HOLD LINE ON FARES UNTIL NEW

TRANSPORTATION PRICE POLICY FORMULATED. COMMISSIONER FOR TRANSPORT AND COMMUNICATIONS DELIVERED HARDLINE SPEECH ALONG THESE LINES AND REGIONAL COMMISSIONERS HAVE PERSONALLY TOURED CITIES ORDERING ON SPOT REFUNDS. THERE AT LEAST ONE REPORTED CASE OF DRIVER BEING BROUGHT BEFORE COURT FOR OVERCHARGING (HE NOW OUT ON BAIL).

7. WITHOUT DOUBT EFFECT PRICE INCREASE PETROLEUM WILL REACH BEYOND TRHNSPORT SECTOR AND RESULT IN PRICE RISE SUCH ITEMS AS LOCAL FOOD. VERY CLEARLY THIS WILL IMPOSE HARDSHIP LOWER INCOME GROUPS ALREADY HARD PRESSED BY DOMESTIC INFLATION. BUT NRC HAS BEEN PREPARING PUBLIC FOR THIS INCREASE SINCE DECEMBER. APPARENTLY CAMPAIGN HAS BEEN QUITE SUCCESSFUL IN PLACING BLAME FOR FEUEL PRICE INCREASE ON EXTERNAL FACTORS AND PORTRAYING GHANAIAAN SITUATION AS ONLY PART OF WORLDWIDE PATTERN. IN FACT, ANNOUCEMENT OF PRICE INCREASES WENT TO GREAT LENGTHS TO SHOW FUEL PRICES IN GHANA STILL BELOW THOSE CHARGED IN OTHER AFRICAN COUNTRIES, INCLUDING SOME OF GHANA'S IMMEDIATE NEIGHBORS. GOVERNMENT SPOKESMEN HAVE ALSO PUBLICLY HINTED THERE MAY BE UPWARD ADJUSTMENT IN CAR ALLOW-ANCE FOR CIVIL SERVANTS AND MILITARY PERSONNEL.

8. FUEL IS ONLY PART OF DOMESTIC INFLATIONARY PROBLEM WITH WHICH NRC MUST DEAL. IMPORTS ALSO COSTING MORE. NRC, AS ALMOST ALL OTHER GOVERNMENTS IN WORLD, WILL BE HARD PRESSED IN COMING MONTHS IN EFFORTS DEAL WITH POLITICAL AND ECONOMIC RAMIFICATIONS OF INFLATION AND SHORTAGES.

DECON 3/31/76

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